



## **CRS Report for Congress**

# **Serbia: Current Issues and U.S. Policy**

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### **Summary**

Serbia faces an important crossroads in its development. It is seeking to integrate into the European Union, but its progress has been hindered by a failure to arrest four remaining indicted war criminals. Serbia has sought closer ties to NATO, but the government is divided on whether to seek eventual NATO membership. The United States recognized the independence of Serbia's Kosovo province on February 18, 2008. Britain, France, Germany, Italy and most other EU countries have also recognized Kosovo or are planning to do so in the near future. Serbian leaders sharply condemned the move and have withdrawn Serbia's ambassadors from the United States and other countries recognizing Kosovo's independence. The second session of the 110<sup>th</sup> Congress may consider legislation on Serbia, including conditions on aid to Serbia. This report provides information on Serbia's political and economic situation, its relations with NATO and the European Union, as well as U.S. policy toward Serbia. It will be updated as needed.

### **Background**

In October 2000, a coalition of democratic parties defeated Serbian strongman Slobodan Milosevic in presidential elections, overturning a regime that had plunged the country into bloody conflicts in the region, economic decline, and international isolation in the 1990s. The country's new rulers embarked on a transition toward Western democratic and free market standards, but success has been uneven. Serbia has held largely free and fair elections, according to international observers. A new constitution adopted in 2006 marked an improvement over the earlier, Socialist-era one, but has some shortcomings, especially concerning the independence of the judiciary. Serbian governments have undertaken economic reforms and the country has experienced rapid economic growth in recent years, but living standards remain poor for many. Organized crime and corruption remain very serious problems.

Serbia has set integration in the European Union as its key foreign policy goal, but its progress has been slowed by a failure to arrest remaining key indicted war criminals. Serbia's EU integration efforts as well as its ties with NATO have been negatively

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affected by the decision by the United States and most EU countries on February 18, 2008 to recognize the independence of Serbia's Kosovo province.<sup>1</sup>

## Current Political and Economic Situation

**Elections.** On January 21, 2007, Serbia held parliamentary elections, the third since the collapse of the Milosevic regime in 2000. The ultranationalist Serbian Radical Party, which has been hostile to U.S. and EU policy goals in the region, received 81 seats in the 250-seat parliament. The pro-Western Democratic Party (DS) of President Boris Tadic won 64 seats. A coalition led by the nationalist Democratic Party of Serbia (DSS) won 47 seats. The pro-free market, pro-Western G17 Plus party won 19 seats. The Socialist Party of Serbia, once headed by Milosevic, won 16 seats. A new pro-Western grouping, led by the Liberal Democratic Party, won 15 seats. The eight remaining seats went to parties representing Hungarian, Muslim, ethnic Albanian, and Roma minorities.<sup>2</sup> On May 15, 2007, just minutes before a deadline that would have triggered new elections, the Serbian parliament approved a new government headed by DSS leader Vojislav Kostunica. A majority of the ministries in the government went to the Democratic Party, while others went to the DSS and G17.

Serbia held presidential elections on January 20, 2008. Incumbent Boris Tadic of the DS faced Tomislav Nikolic from the Radicals, as well as several candidates from smaller parties. Nikolic won 39.99% of the vote. Tadic came in second with 35.39%. The other candidates trailed far behind. As no candidate received a majority, a runoff election was held between Tadic and Nikolic on February 3. Tadic won re-election by a narrow majority of 50.6% to 47.7%. Analysts say Tadic was helped by a heavy turnout among pro-Western voters who feared that a Nikolic victory could lead to international isolation for Serbia. Tadic won despite the fact that a Kostunica ally ran against him in the first round of the vote, and that Kostunica refused to endorse Tadic in the runoff. Kostunica charged that Tadic had been insufficiently supportive of his efforts to combat international recognition of Kosovo's independence. The government could collapse over the Kosovo issue, provoking new elections in which the Radicals would likely do well.

**Serbia's Economy.** Since 2001, Serbian governments have embarked on comprehensive economic reforms. The government estimated that it would run a slight consolidated budget surplus in 2007. The IMF has called on Serbia to restrain public sector spending. Serbia's finance minister vowed to slash government spending in the 2008 budget. This may be especially important as Serbia's privatization effort is nearing its final stages, and a key source of revenue will dry up. Over 2,000 state-owned firms have been sold off since 2001, with about 1,000 left to go. The government hopes to finish Serbia's privatization process by 2010. Foreign direct investment (FDI) has been substantial. Serbia took in \$4.4 billion in net FDI in 2006, in large part due to the proceeds from privatizations. Net FDI for January-October 2007 was \$1.3 billion. In

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<sup>1</sup> Serbia was linked with Montenegro in a common state until Montenegro gained its independence in June 2006. For more on Serbia's development from the fall of Milosevic until Montenegro's independence, see CRS Report RL30371, *Serbia and Montenegro: Background and U.S. Policy*, by Steven Woehrel.

<sup>2</sup> Republic of Serbia Electoral Commission website, [<http://www.rik.parlament.sr.gov.yu/>].

January 2008, the Russian oil monopoly Gazprom reached an agreement with Serbia to buy NIS, the Serbian national oil company. Gazprom's effort may have been helped by Moscow's opposition to Kosovo's independence. The deal includes a plan to route a branch of Gazprom's proposed South Stream natural gas pipeline through Serbia.

Serbia has experienced rapid economic growth in recent years. Gross Domestic Product rose by 8% in the first half of 2007, on a year-on-year basis. Real wages are rising rapidly, 22.1% from January-October 2007, on a year-on-year basis. The increase has been in part due to raises given to government workers and those working in state-owned companies. Consumer price inflation has been increasing, reaching 8.8% in September 2007, on a year-on-year basis. Unemployment is dropping, but remains very high, at over 20% of the workforce. Poverty also remains a problem. The World Bank has estimated that over 10% of the population of Serbia is impoverished, and another third is close to poverty.<sup>3</sup>

## Relations with the European Union and NATO

Since the defeat of the Milosevic regime in 2000, Serbia's main foreign policy goal has been integration into Euro-Atlantic institutions. Serbia is particularly interested in joining the European Union. As a first step, the European Union has offered Serbia a Stabilization and Association Agreement (SAA). The agreement would provide a framework for enhanced cooperation between the EU and Serbia in a variety of fields, including help in harmonizing local laws with EU standards, with the perspective of EU membership. However, EU officials made clear to Serbian leaders that a closer relationship with the EU, including an SAA, requires Serbian cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY).<sup>4</sup> The political situation in Serbia may continue to stymie cooperation with the ICTY. The Radicals and the Socialists are opposed to any cooperation with the Tribunal, and, while nominally supportive, the enthusiasm of Kostunica and the DSS is open to doubt.

However, the Kosovo issue is proving to be an even greater impediment to closer Serbian relations with the EU. On November 7, 2007, the EU Commission initialed an SAA with Serbia. The majority of EU countries wanted to sign the SAA with Serbia before the second round of Serbia's presidential election on February 3, 2008, in hopes of helping Tadic win reelection. However, the Dutch government blocked the move, insisting that Mladic must be delivered to the ICTY first. As a compromise, on January 28, the EU instead offered Serbia a special agreement that would deal with such issues as political dialogue, visa liberalization, free trade, and education cooperation. The accord was intended to be signed on February 7, but Prime Minister Kostunica rejected the agreement, saying that it was a "deception" aimed at getting Serbia to tacitly accept Kosovo's independence. Kostunica's action increased tensions within the governing coalition, as the DS is strongly in favor of the accord.

On February 18, 2008, Britain, France, Italy, Germany, and many other European Union countries recognized Kosovo's independence or announced plans to do so. EU

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<sup>3</sup> Economist Intelligence Unit Country Report: Serbia, January 2008.

<sup>4</sup> For more information, see CRS Report RS22097, *Balkan Cooperation on War Crimes Issues*, by Julie Kim.

officials say they expect at least 17 of the 27 EU member states to recognize Kosovo soon. However, some EU countries, including Greece, Cyprus, Slovakia, Romania, and Spain have declined to recognize Kosovo's independence. These countries are either traditional allies of Serbia, or have minority populations for whom they fear Kosovo independence could set an unfortunate precedent, or both. Serbia has vowed to recall its ambassadors from any country recognizing Kosovo. Serbia's relations with the EU will likely suffer for some time to come as a result of the Kosovo issue.

**NATO.** The Serbian government has favored close ties with NATO. In December 2006, Serbia joined NATO's Partnership for Peace (PFP) program. PFP is aimed at helping countries come closer to NATO standards and at promoting their cooperation with NATO. PFP membership is a prerequisite if a country wishes to join NATO in the future. Serbia's participation in the program had been delayed by the country's failure to deliver Ratko Mladic to the Tribunal, but NATO members decided to invite Serbia anyway at the November 2006 NATO summit, perhaps in hopes of helping democratic parties in Serbia's January 2007 parliamentary election.

Parties in the government have differing views on whether Serbia should seek NATO membership. President Boris Tadic and his Democratic Party are in favor of joining NATO. The Democratic Party controls the foreign and defense ministries in the Serbian government, and supports defense reforms. However, Serbia still must make further progress in reforming its military, as well as its intelligence and security agencies, to be a viable candidate for future NATO membership. On the other hand, rising tensions over Kosovo have led DSS leaders to sharply criticize NATO, perhaps in part in hopes of currying favor with Moscow, its main ally on the issue. The DSS favors participation in PFP, but not NATO membership for Serbia. Due in part to memories of NATO's 1999 bombing of Serbia, public opinion polls have shown that less than one-third of the Serbian public favor NATO membership. The recognition of Kosovo's independence by the United States and other leading NATO countries may cause an even greater number of Serbs to turn against NATO membership and close NATO ties for their country, particularly if casualties result from confrontations between NATO-led peacekeepers and Serbs in Kosovo.

Some observers have raised the possibility that Serbia could turn away from Euro-Atlantic integration and form closer ties with Russia, including perhaps the stationing of Russian troops in Serbia. They point to the purchase of the Serbian oil company NIS by the Russian government-controlled Gazprom as perhaps a move in this direction. The opposition Radical Party and Socialist Party have come out in favor of an alliance with Russia. The government continues to support European integration, although the DS appears much more determined in this respect than the DSS, which has stressed the importance of Moscow's support on the Kosovo issue.

## **U.S. Policy**

Serbia has played a key role in U.S. policy toward the Balkans since the collapse of the former Yugoslavia in 1991. U.S. officials came to see the Milosevic regime as a key factor behind the wars in the region in the 1990s, and pushed successfully for U.N. economic sanctions against Serbia. On the other hand, the United States drew Milosevic into the negotiations that ended the war in Bosnia in 1995. The United States bombed Serbia in 1999 to force Belgrade to relinquish control of Kosovo, where Serbian forces had

committed atrocities while attempting to suppress a revolt by ethnic Albanian guerrillas. U.S. officials hailed the success of Serbian democrats in defeating the Milosevic regime in elections in 2000 and early 2001. The United States has seen a democratic and prosperous Serbia, at peace with its neighbors and integrated into Euro-Atlantic institutions, as an important part of its key policy goal of a Europe “whole, free and at peace.”

The United States provides significant aid to Serbia. For FY2008, the Administration requested \$51.3 million in aid in SEED funding for political and economic reforms, \$1.65 million in NADR non-proliferation, antiterrorism, and demining funds, and \$0.3 million in IMET military training funds assistance. For FY2009, the Administration is requesting \$46.27 million in SEED funding, \$1.5 million in FMF military assistance funds, and \$1 million in IMET aid. U.S. SEED aid is aimed at strengthening democratic institutions and civil society, including by supporting the development of effective local governments. It also is being used to help Serbia strengthen its free market economy by providing advice on fiscal reform, fighting financial crime, and promoting a better investment climate. Other U.S. aid is targeted at strengthening Serbia’s export and border controls, including against the spread of weapons of mass destruction. The signing of a Status of Forces Agreement with Serbia in September 2006 permits greater bilateral military cooperation between the two countries, including increased U.S. security assistance for Serbia as well as joint military exercises and other military-to-military contacts.

In 2003, the Administration certified that Serbia and Montenegro was eligible for Normal Trade Relations (NTR) with the United States. The country’s NTR status had been suspended in 1992, in response to its role in the war in Bosnia, according to the terms of P.L. 102-420 (106 Stat. 2149). Administration officials said the move was made in response to the improved situation in Serbia, especially in defense reform and cutting links between the Serbian and Bosnian Serb armed forces. In June 2005, the Administration announced that it had granted duty-free treatment to some products from Serbia and Montenegro under the Generalized System of Preferences (GSP).

However, there remain difficult issues in U.S.-Serbian relations. One is Serbia’s failure to fully cooperate with the ICTY. Since FY2001, Congress has conditioned part of U.S. aid to Serbia after a certain date of the year on a presidential certification that Serbia has met several conditions, the most important being that it is cooperating with the ICTY. The certification process typically affects only a modest portion of the amount allocated for any given year, due to the fact that the deadline for compliance is set for a date in the spring of the fiscal year, and that humanitarian and democratization aid are exempted. Four ICTY indictees, all of them Serbs, remain at large, the most important of whom are Mladic and former Bosnian Serb leader Radovan Karadzic.<sup>5</sup>

The most serious cloud over U.S.-Serbian relations is the problem of Kosovo. The United States recognized Kosovo’s independence on February 18, 2008. Serbia condemned the move and withdrew Belgrade’s ambassador to the United States. The deterioration of U.S.-Serbian relations may last for some time, as Serbian leaders see the United States as the leading force in pushing for international recognition of Kosovo’s

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<sup>5</sup> For more information see CRS Report RS21686, *Conditions on U.S. Aid to Serbia*, by Steven Woehrel.

independence. Nevertheless, the United States has continued to express support for close ties with Serbia, despite the differences the two countries have on Kosovo.<sup>6</sup> Differences over Kosovo may also lead to the reduction or cessation of Serbian cooperation with the ICTY.

On the evening of February 21, 2008, Serbian rioters broke into the US Embassy in Belgrade and set part of it on fire. The riot, in which other Western embassies were targeted and shops were looted, took place after a peaceful government-sponsored rally against Kosovo's independence. The embassy was empty at the time. Observers at the scene noted that Serbian police were nowhere where to be found when the incident began, despite the fact that the embassy had already been boarded up as a result of less serious incidents earlier in the week. Riot police arrived about a half-hour later and battled the rioters, dispersing them at the cost of injuries on both sides. One suspected rioter was later found dead in the embassy.

U.S. officials expressed outrage at the attack and warned Serbian leaders that the United States would hold them personally responsible for any further violence against U.S. facilities. Non-essential personnel and families of U.S. diplomats have been evacuated from Serbia in response to the incident. President Tadic condemned the attack and vowed to investigate why the police had allowed the incident to occur. Although Prime Minister Kostunica also criticized the violence in general terms, observers note that the DSS controls the Serbian police. Slobodan Samardzic, Serbia's minister for Kosovo and a former Kostunica aide, blamed the United States for the violence, saying that it was the result of the U.S. recognition of Kosovo.

## Congressional Role

The 110<sup>th</sup> Congress has considered legislation on Serbia. On January 17, 2007, the Senate passed S.Res. 31 by unanimous consent. It expressed support for democratic forces in Serbia and strong U.S.-Serbian relations. It called on the United States to assist Serbian efforts to join the EU and NATO. Division J of the Consolidated Appropriations Act of 2008 (P.L. 110-161) includes FY2008 foreign aid appropriations. Section 699D permits U.S. aid to Serbia after May 31, 2008 if Serbia meets certain conditions, most importantly, cooperation with the ICTY. Legislation on Kosovo was introduced in the first session of the 110<sup>th</sup> Congress. Representative Tom Lantos introduced H.Res. 36 on January 5, 2007, which calls on the United States to express its support for Kosovo's independence. On March 29, 2007, Senator Lieberman introduced S.Res. 135, which calls for U.S. recognition of Kosovo's independence, with or without a U.N. Security Council resolution. An identical House resolution, H.Res. 309, was introduced on April 17. On May 24, 2007, Representative Bean introduced H.Res. 445, which expresses the sense of the House that the United States should reject an imposed solution on Kosovo's status and not take any unilateral steps to recognize Kosovo's independence. The second session of the 110<sup>th</sup> Congress may also consider legislation on Kosovo, as well as on conditions on aid to Serbia.

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<sup>6</sup> For a text of the U.S. announcement on recognition of Kosovo's independence, see the State Department website, [<http://www.state.gov/secretary/rm/2008/02/100973.htm>]. For more on Kosovo, see CRS Report RL31053, *Kosovo and U.S. Policy*, by Julie Kim and Steven Woehrel, and CRS Report RS21721, *Kosovo's Future Status and U.S. Policy*, by Steven Woehrel.